

Floor Plan Loans

Consider the following procedures at each examination. Examiners are encouraged to exclude items deemed unnecessary. This procedural analysis does not represent every possible action to be taken during an examination. The references are not intended to be all-inclusive and additional guidance may exist. Many of these procedures will address more than one of the Standards and Associated Risks. For the examination process to be successful, examiners must maintain open communication with bank management and discuss relevant concerns as they arise.

POLICY CONSIDERATIONS

- 1 Determine if the loan policy provides the following floor plan lending guidelines:
 - 1 A Defines qualified borrowers.
 - 1 B Defines types of merchandise to be financed.
 - 1 C Establishes guidelines for granting floor plan loans.
 - 1 D Establishes a volume limit for aggregate floor plan loans. (Usually as a percent of the loan portfolio or capital.)
 - 1 E Establishes minimum standards for documentation and perfection of collateral liens.
 - 1 F Establishes guidelines for curtailment requirements.

ADMINISTRATION

- 2 Determine if floor plan underwriting and administration procedures require loan officers to perform the following tasks:
 - 2 A Conduct floor plan inspections (generally conducted monthly based on inventory turnover).
 - 2 B Resolve discrepancies in floor plan inspections.
 - 2 C Evaluate dealer financial statements. (For car dealers, these are the statements submitted to the manufacturer.)
 - 2 D Review floor plan agreements.
- 3 Determine if loan officers perform the following procedures during floor plan inspections:
 - 3 A Inventory for sale is checked for existence and physical condition.
 - 3 B Prompt explanations are provided when inventory is not found on the dealer's premises during inspections.
 - 3 C Written documentation is maintained on all inspections, including the follow-up on units not found on the dealer's premises.
 - 3 D Inspection assignments are rotated to prevent collusion.
 - 3 E Inspection results are reported to senior management.

DOCUMENTATION

4 Review a sample of floor plan arrangements. Determine if the files contain the following documentation as necessary:

- 4 A Floor plan agreement.
- 4 B Hazard insurance with the bank named as loss payee.
- 4 C Collateral valuation such as NADA used car guide.
- 4 D Drafting agreement with manufacturer, if applicable.
- 4 E Floor plan inspections (checks).
- 4 F Financing statement filed with the Secretary of State.
- 4 G Notices sent to prior secured parties for purchase money security interests in inventory (in accordance with Section 9.312 (c) of the UCC).
- 4 H Title check. For example, UCC search using UCC-11 with the Secretary of State. (Note: Lien search and UCC filing should occur before disbursement.)
- 4 I Manufacturer's Statement of Origin, titles, and trust receipts, if applicable.
- 4 J Wholesale letter of credit and drafting authority.
- 4 K Limited power of attorney giving the bank the authority to prepare and sign lien documents for the dealer.

5 Determine if floor plan agreements contain the following information:

- 5 A Maximum advances for each unit (usually expressed as a percentage of cost).
- 5 B Method used to advance funds (draft or invoice).
- 5 C Method used to perfect the security interest (varies by state).
- 5 D Location of collateral.
- 5 E Frequency of floor plan inspections.
- 5 F Repayment schedule.
- 5 G Insurance requirements.
- 5 H Periodic curtailment program for unsold units.

CREDIT ANALYSIS

6 Review changes in floor plan lending since the previous examination.

7 Review the financial statements of dealers, and determine their ability to service the debt. (Note: Debt and inventory levels should move in the same direction. Be aware that floor planned items may be shifted between dealers.)

- 7 A Compare the number of vehicles sold as shown on the statement with floor plan payoff activity.

- 7 B Review accounts payable. Determine if the dealer owes other dealers for inventory purchases.
- 7 C If the dealer has more than one floor plan creditor, review how management ensures the dealer is not double pledging the collateral (split-financing of floor planning).
- 7 D Evaluate overdraft activity and returned items for dealers.
- 7 E Determine that drafting agreements are not abused by the dealer.
- 8 Determine that the bank is not over advancing against the collateral value. Generally, new and used automobiles are financed at 100% of dealer cost.
- 9 Determine if the lending officer is familiar with the dollar fluctuations in floor plan loans.
- 10 The following items may indicate problems with the floor plan arrangement:
 - 10 A Dealer errors are increasing (wrong vehicles paid off, wrong vehicles added to floor plan, sold inventory not paid off, wrong retail draft submitted, etc.).
 - 10 B Errors are predominantly in favor of the dealer.
 - 10 C An unusual number of follow ups is required to resolve errors.
 - 10 D Previously detected errors continue to occur.
 - 10 E Employee turnover at the dealership is increasing.
 - 10 F The amount of missing information on retail sales is increasing.
 - 10 G Floor plan activity is not consistent with special promotions at the dealership.
 - 10 H Vehicles added to demonstrator service occur right before (or during) a floor plan inspection.
- 11 If the situation warrants, examiners should consider performing a floor plan inspection of the dealership. The following situations may warrant an inspection:
 - 11 A Infrequent or nonexistent floor plan inspections.
 - 11 B Items are consistently found missing during floor plan inspections.